



JOSEPH L. HARRIS, CPA, CIA
AUDITOR GENERAL
CITY OF DETROIT

COLEMAN A. YOUNG
MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE 313•224•3101
FAX 313•224•4091
WWW.CL.DETROIT.MI.US

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Honorable City Council
Detroit, Michigan

Good morning Madam President, Mr. President Pro-tem, Honorable City Council Members

I am pleased to provide you, once again this year, with the results of my review of the Mayor's proposed budget.

My remarks, today, concerning the Mayor's proposed budget, will not be particularly complimentary. However, I would be remiss if I did not acknowledge the outstanding job this administration is doing in so many areas of finance and information technology.

During the past year, I have had the pleasure of meeting with our new chief financial officer, our deputy finance director, our DRMS project manager, our chief information officer, our police chief, and our health director. I have been impressed with the Mayor's selections for these key positions and believe that the leadership our Mayor has exhibited, and the talent and commitment of the individuals he has placed in these key positions bodes well for our city during the coming years. One of the most important decisions any CEO must make is the selection of his key team members. And the Mayor should be commended for these selections, and the leadership he has demonstrated during the past year.

The next key step our Mayor must take is the development of a strategic plan for the City – a plan that not only describes the vision of the administration, and its goals and objectives, but also the manner in which it plans to achieve those goals and objectives. The plan must anticipate and address the City's needs, threats, and opportunities, and will require an understanding of the City's strengths and weaknesses. Also, it should incorporate contingency measures to address potential threats to the achievement of the goals and objectives.

Someone once asked hockey great, Wayne Gretzky, how it was that he seemed to always be around the puck. Gretzky replied that the secret is, not to skate to where the puck is, but to skate to where the puck is going to be. Gretzky knew, from experience and instinct, where the puck was going to be – one attribute that helped to make him great.

The puck represents an opportunity for Wayne Gretzky. For the City of Detroit, a fiber optics infrastructure (broadband), PLD energy, neighborhood development, business development, and tourism represent opportunities – and we need to skate to where those opportunities will be. However, we cannot expect to do so without a plan.

Without a plan, we cannot effectively increase revenues and improve the quality and efficiency of City processes, attract businesses, developers, residents and tourists to the City, or develop an information system that will provide management with the true costs of our processes with which to make sound and timely decisions. Without a plan, the City will continue to wander aimlessly in search of answers that have already been provided.



As Council members may recall, I have expressed the need for a strategic plan in each of the last few years. This recommendation has fallen on deaf ears each year. Now we are faced with unanticipated revenue shortfalls, and unforeseen cost increases.

The plan is to delay the decisions that need to be made now, by borrowing to finance the projected shortfalls. The plan is to stick with "Plan A" for now, because there is no "Plan B". The plan is to borrow tens of millions of dollars until we can figure out what to do. The plan is to cut personnel out of various departments without regard to the bottom-line impact to the City.

The old cliché rings true. When you fail to plan, you plan to fail. Without a plan to execute under different sets of scenarios, we resort to crisis management. And that is where we are today.

This administration is in the unenviable position of needing to balance escalating expenses against declining revenues. The task for City officials, during the next few years, will be great. Mayor Archer warned City Council, a few years ago, of a potential \$860 million shortfall over a ten-year period. (It now appears that the former mayor was optimistic.) A consultant for the City Council refuted the Mayor's projections, and the issue was dismissed and presumably forgotten. We did not skate to where the puck would be. Although the messenger is not around, the message lingers. The message can no longer be ignored because it is no longer just a threat ... it is now a verifiable fact. And our new Mayor has been left holding the bag.

Our Mayor recognizes the need to reengineer the City's processes to meet some of our challenges. Unfortunately, the benefits of any reengineering, alone, cannot be achieved quickly enough to save the City from massive layoffs in the coming years.

Following this message (page viii) is a forecast that projects the City's major revenues and expenditures for the next five years. The following table reveals the crux of the financial issues during the next two years

(Dollars in Millions)

	2004 – 2005 Projections	2003 – 2004 Budget	Difference
Revenues			
Sale of Risk Management Bonds	\$ 0	\$ 70	\$ (70)
Additional Casino Revenue	0	46	(46)
Income Tax Revenues	294	300	(6)
MBIA Collections	0	24	(24)
Expenditures			
Non-Pension Benefits (Hospitalization)	274	240	34
Salaries	586	566	20
Total Effect on General Fund			\$ (200)



Although these few items do not represent all of the variables affecting the City's finances, they provide a glimpse of the magnitude of the problem. Whether the shortfall will be as little as \$150 million, or as large as \$200 million, clearly, the Administration needs to develop a plan to address this impending crisis.

In an effort to address some of the City's challenges, the Mayor plans to establish a Program Management Office (PMO). The plans are for the PMO to focus on the Department of Public Works (DPW) and the Public Lighting Department (PLD) initially. PLD is a diamond in the rough, and is an under exploited asset. A PLD Mistersky modernization study estimated savings of up to \$20 million annually. The Mistersky modernization and the reengineering of PLD should be pursued forthwith. On the other hand, the reengineering of DPW does not provide nearly the same potential as other opportunities.

Although the PMO, in and of itself, has merit, the current mission appears to be misguided in light of the major opportunities awaiting the City, such as DDOT, Risk Management, and broadband. We know where to find additional revenues, where to cut costs, and where to improve City services, and we know where to reinvent our City government. Instead, we are reinventing the wheel. We do not need the PMO to determine which opportunities await us. The 1998 DMG benchmarking study and various audits conducted by the OAG have provided that information.

Previous benchmarking reports and audit reports have revealed \$40 million of potential savings annually at DDOT, \$5 million annual savings from improvements to the workers' compensation system, and \$2 million annual savings from broadband. We also know that the City's risk management function is non-existent. No consideration has been given to the establishment of an executive level Risk Management Officer to address the tens of millions of dollars that are hemorrhaging from the City's coffers. Nor has there been any mention of plans to appoint a Reengineering Czar to pursue major reengineering opportunities.

The majority of the opportunities, made known to us over the last few years, have yet to be pursued. Some of those opportunities, such as those described in the DDOT Performance Audit Report and the Workers' Compensation Performance Audit Report, can only come to fruition by reengineering the respective agencies' archaic processes. Other opportunities, such as the broadband, described in the Telecommunications Performance Audit Report, will require investments. Still other opportunities, such as the perennially high level of claims paid out by the City, need to be vigorously dealt with as an infectious disease that is eating away at the City's financial health. But no attention is being given to them.

On the other hand, the administration is proposing salary increases when it should be requesting concessions. Proposed cuts in personnel do not appear to have been well thought out. For example, the Office of the Auditor General has made recommendations during the past several years, which, if implemented, the annual savings would save the City more than ten times the annual cost of this Office. However, once again this year, the Administration proposes to reduce the staffing levels of the OAG. The cliché "No good deed ever goes unpunished" applies here.

The Mayor proposes to reduce the staffing of the Office of the Auditor General (OAG) by two auditors in the next fiscal year. This decision has been made without regard to the



Auditor General's Charter mandate; the increased emphasis on performance audits desired by City Council; City Council's increased dependence on the OAG's resources for reviews, investigations and analyses; other issues that arise that require investigation; and the value added contributions by the OAG, such as the DDOT \$40 million annual savings opportunities, the Workers Compensation \$5 million annual savings opportunities, and the telecommunications \$2 million annual saving opportunities.

During the last ten years, the following departments have increased their staffing levels significantly:

<u>Agency</u>	<u>Number of Employees as of</u>		<u>Increase</u>	<u>Percentage Increase</u>
	<u>April 1, 2003</u>	<u>March 30, 1994</u>		
Budget	33	26	7	26.9
Finance	528	497	31	6.2
Law	196	134	62	46.3
Zoological Institute	99	75	24	32.0
City Clerk	28	21	7	33.3
Elections	102	61	41	67.2
Transportation	1,803	1,638	165	10.1
Municipal Parking	119	96	23	24.0
Totals	2,908	2,548	360	14.1

All told, as of April 1, 2003, there are 1,328 more employees working for the City than there were ten years ago. The benefits of these increases to our citizens are questionable, at best. For example, the Department of Transportation (DDOT) has increased its number of employees by one hundred sixty-five. Last year DDOT raised fares by twenty-five cents, with no apparent increase in service and a significant decrease in ridership since the fare increase. In the last ten years, DDOT's costs have increased by over fifty percent, or \$67 million; and DDOT continues to be one of the most inefficient transportation departments in the country. As described in the 2001 performance audit performed by KPMG, if DDOT could become as efficient as the most mediocre of its peers, it could save \$40 million per year. Meanwhile, the Agency's costs have continued to climb. All of these excess costs are currently being born by the City's General Fund.

The City needs an overall vision and a strategic plan to replace the piecemeal approach to addressing the City's organizational, financial, operational, and infrastructure needs. The plan needs to address the areas of greatest opportunity, such as DDOT reengineering, PLD Mistersky modernization, broadband, neighborhood and business development, tourism, and, of course, risk management.

The City has all but ignored all of these opportunities. Risk management, for example, is arguably one of the most wasteful areas of the City. The Risk Management Council has met four times in the past three years, and not at all in 2003, although some members did attend a workshop this year. The relevant City Charter section reads as follows:



The risk management council shall make recommendations to the mayor concerning implementation of policies, programs and activities to minimize exposure or liability of the city to claims and damages.

The council shall provide an annual evaluation of the effectiveness of risk management functions to the mayor and city council.

At least every two (2) years, the risk management council shall investigate the administration and effectiveness of risk management functions in each city agency and report findings and recommendations to the mayor and city council.

The city shall make an annual appropriation for the operations of the risk management council.

Currently, the Risk Management Council has no leadership, no staff, no mission, no goals, no objectives, no plan, no commitment, no priorities, no function, no appropriation, no accountability, no sense of direction, no meetings, and no results. Otherwise, it has been an unqualified success.

The City plans to borrow upwards of \$60 million next year to pay current risk management costs. We are sticking a finger in the hole in the dike next year. The following year we will run out of fingers as new holes erupt. It is time to take more permanent action, but we have no plan. The Administration's plan is represented by its proposed budget. And the budget does not address many of the City's threats and opportunities.

It is interesting to note that in Britain, the term budget was used to describe the leather bag used by the Chancellor of the Exchequer, to carry to Parliament the statement of the Government's needs and resources. Over time, the term "budget" was used to describe the statement, rather than the bag itself.

Needless to say, we are not concerned about the bag. It's what's in the bag that concerns us. Moreover, it should not be the statement, itself, but the details behind the statement that concern us.

I am convinced that neither the Council, nor the Mayor, nor the Chief Financial Officer, nor the Budget Director understands what's in the bag ... because the bag has become like a purse that hasn't been emptied for years – and, until it is emptied and only the necessities are put back into it, item by item, it will contain useless, and even undesirable, elements.

Until City government experiences a paradigm shift, we will remain oblivious to concepts such as Program Budgeting, Activity Based Management, and the Balanced Scorecard. Our resources will continue to be squandered on outmoded and inefficient processes. The technology exists within the Oracle system to extract the necessary management information at a reasonable cost. However, the City has not begun to scratch the surface in order to reap the benefits of its new technology. Without the necessary information, we cannot consistently make the right choices, or devise the appropriate plans. And, year after year, the City continues to squander opportunities. Until we learn to skate to where the puck will be, we will not score.



The City's strategic plan needs to address the City's need for a management information system, efficient processes, revenue enhancements, infrastructure improvements, risk management, and a climate that attracts businesses and developers.

Progressive local governments, such as Oakland County and Chicago, recognizing this, have taken the initiative to develop broadband infrastructures in their communities. They understand that the major attractions for businesses and residences, until the twentieth century, were the rivers. Beginning in the 1950s, the freeways became a major factor as to where businesses and citizens resided. The highways of the twenty-first century are the broadband networks. If Detroit is to thrive, we need to develop plans to attract businesses and residents to our city. We need to skate to where the puck will be.

The fact is that we know where the opportunities will be. We have demonstrated that the development of a telecommunications infrastructure for the City pays for itself. With the issuance of \$16.8 million dollars of twenty-year bonds, the City will save at least \$2 million per year, conservatively. One million of the savings could be used to pay the debt service on the bonds, and the other million could be used to fund other projects within the City. This recommendation has been totally ignored. The telecommunications infrastructure recommended by Plante & Moran would not only pay for itself and provide a source of revenue, but would also make the City a more attractive place for businesses and residents. Yet, no allocation has been considered in the capital agenda.

Broadband networks are the highways of the twenty-first century for voice, data, and video communications. Without this infrastructure in place, Detroit will lag behind much of the metropolitan area. However we cannot get beyond the paralysis of analysis.

The benefits of the telecommunications project presented to the City two years ago, and the Mistersky modernization project that has been studied by PLD are obvious, and should be undertaken not only for the financial advantages and for the superior services that can be provided to citizens and customers of City agencies, but also to attract businesses to the City. Instead, the City continues to drive many businesses away.

The Mayor recognizes the importance of attracting businesses and developers to the City, and has been an excellent ambassador for our city. However, developers often are harassed and harangued by some City officials and Planning and Development Department personnel, such that many developers will not consider a development project in the City. The treatment of Kmart in its attempt to build stores in the City was, in my opinion, rueful. The fact is that the City should be laying out the red carpet for developers, giving the land away if necessary – otherwise, the City will continue to lose more businesses and residents than it gains, and our suburban neighbors will gain the benefits of both the businesses and the workforce.

The City continues to chase businesses and developers to other communities, sometimes just across the border, because of our arrogance and less than friendly welcome – as if we are the “only game in town.” The City needs to “bend over backwards” to attract businesses and developers to the City. We need to create incentives in order to become competitive. However, the arrogance, egos, and contempt, exhibited by a few individuals, are poisoning the City's future. Although the City does not need to beg, it does need to entice, pursue, and court businesses and developers, and to make conditions attractive to them.



In summary, I offer the following recommendations to our City officials:

- Start with a written plan that addresses the City's threats and opportunities, and that capitalizes on the City's strengths.
- Prepare a contingency plan that provides for actions the City will take if revenue shortfalls and/or cost increases exceed expectations. There should be no need to postpone action for a year, as we are currently doing, while City officials figure out what to do.
- Prioritize reengineering efforts based on return-on-investment (DDOT, PLD Mistersky, broadband), then use the savings thereby generated to reengineer additional processes.
- Appropriate capital funds for implementation of the broadband infrastructure.
- Begin implementation, without further delay, of the revenue generating and cost reduction recommendations provided herein.
- Appoint a Reengineering Czar to coordinate the reengineering of City processes.
- Appoint a Risk Management Officer to coordinate a citywide risk management program.
- Approve a Risk Management Ordinance to supplement the Charter mandate. The ordinance should designate the Council's chairperson, and should hold the chairperson accountable for the Council's mandated obligations.
- Fund the Risk Management Council, as mandated by the Charter.
- Create an agenda to attract businesses, residents, and tourists.
- Establish a more friendly business/developer climate.
- Implement a Management Information System to include Program Budgeting, Activity Based Costing, and the Balanced Scorecard to enable the City to budget and track the cost of the City's service efforts, help gauge efficiency, and improve accountability.

These recommendations are not a panacea to address the City's myriad of challenges. However, they represent the best alternatives offered to the City over the past several years. Until we begin to plan our work and work our plan, until we understand what Wayne Gretzky understood, until we learn to skate to where the puck will be, we will miss most of the opportunities that would have otherwise been available to us.

Let me close by, on behalf of my staff, thanking the Budget Department and the Finance Department for their assistance in this analysis. I wish to also, personally, commend the loyal and dedicated Office of the Auditor General team members who sacrificed their evenings and weekends during the past two weeks to provide me with the many analyses required for the completion of this engagement.

Respectfully,

Joseph L. Harris
Auditor General

FIVE-YEAR FORECAST

General Fund revenues for the fiscal year ending June 30, 2004 are expected to decline 1.25 percent from the 2002-2003 level, and should reach their lowest level during the five-year projection period in the fiscal year ending June 30, 2005 when they are projected to fall to \$1,388 million. General Fund revenues are then expected to increase an average of 2.33 percent annually, reaching \$1,459 million during the fiscal year ending June 30, 2008.

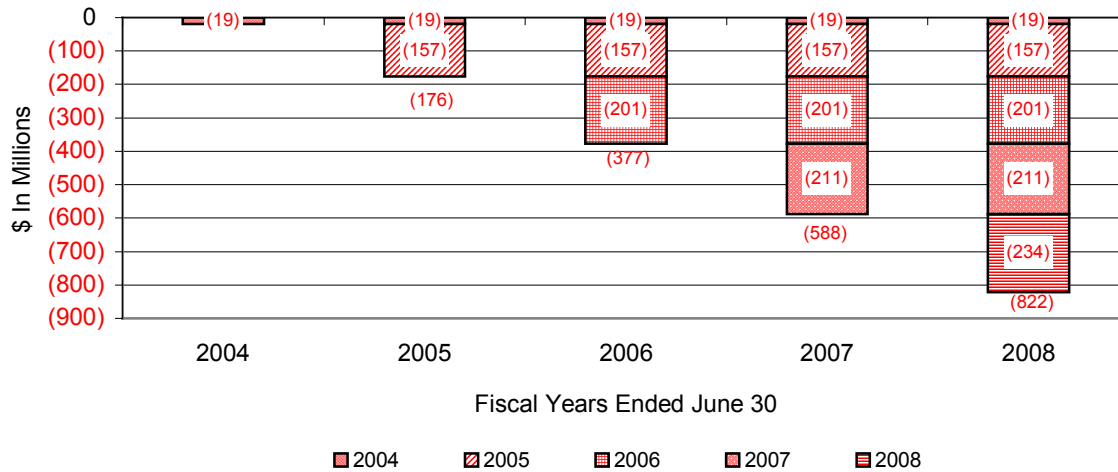
General Fund expenditures are expected to increase 6.8 percent, a total of \$99 million, between fiscal year 2003-2004 and 2004-2005 due to increases in salaries and wages, health benefits, and expenditures related to the non-appropriation of the risk management premiums in 2003-2004. Expenditures are expected to increase at an average rate of 3.1 percent between 2004-2005 and 2007-2008, reaching a total of \$1,693 million as a result of expected salaries and wages and health benefit costs increases.

The result of the projected decline and slowly recovering General Fund revenues coupled with the projected increase in General Fund expenditures, is an expected General Fund deficit in fiscal years 2004 through 2008. Detailed projections for the major General Fund revenue and expenditure items follow. Key points from this information include:

- Revenues from the Municipal Income Tax are expected to continue to decline due to the mandated reductions in the income tax rates and the loss of population and jobs.
- Revenues from Property Taxes are expected to grow slowly during the period from June 30, 2003 through June 30, 2008. Total growth in property tax revenues for the five-year period is expected to be 13.61 percent.
- Revenues from the City Utility Users' Tax are expected to remain flat.
- Revenues from Wagering Taxes and Fees are expected to grow at a slower rate than in the past. No significant increase in the amount of continuing revenue is expected to occur until the opening of the permanent casinos, which are expected to open in January 2007.
- Revenues received from State Revenue Sharing are expected to be reduced during fiscal year ending June 30, 2004 as a result of State budget reductions. We expect that the full amount of revenue sharing from the State will slowly be restored, so that the full \$332 million will be received as the State's economy recovers.
- The City's expenditure for salaries and wages is expected to grow at a slower rate than in recent years, due to a smaller civilian workforce.
- Pension Fund expenditures are expected to increase more than \$80 million for the fiscal year ending June 30, 2004 and are projected to then level off at approximately \$100 million annually.
- Health benefit expenditures are projected to increase 18 percent in fiscal year 2004, and then 15 percent annually over the next four years. Non-health related employee benefits are expected to increase at the same rate as in recent years.

PROJECTED GENERAL FUND DEFICIT

The chart below shows the five-year cumulative effect of the projected City deficits based on present personnel and other costs.



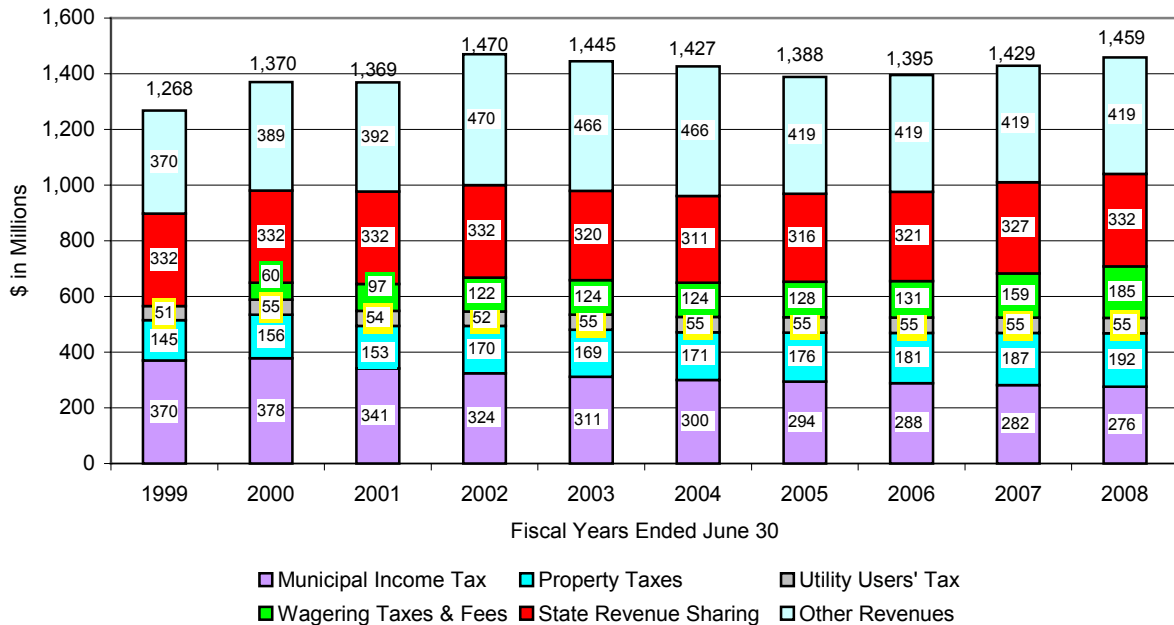
Projected annual revenues and expenditures, as well as the projected deficits are shown in the table below.

Year	\$ In Millions		
	Projected Revenues	Projected Expenditures	Projected Surplus (Deficit)
2003-2004	1,427	1,446	(19)
2004-2005	1,388	1,545	(157)
2005-2006	1,395	1,596	(201)
2006-2007	1,429	1,640	(211)
2007-2008	1,459	1,693	(234)

ACTUAL AND PROJECTED GENERAL FUND REVENUES AND EXPENDITURES

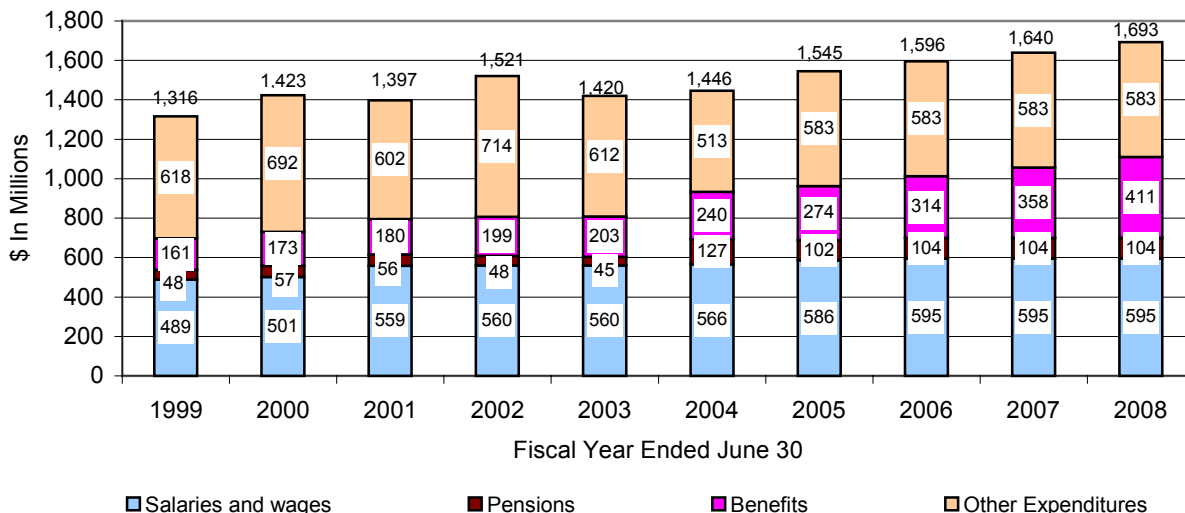
Revenues:

Historical and projected General Fund revenues are charted below. Revenue is expected to decline between fiscal years 2003-2004 and 2004-2005, primarily due to the inclusion of a one-time \$46.8 million casino enhancement payment that is expected to be made to the City in 2003-2004. Projection assumptions for each revenue category are shown separately in the following pages.

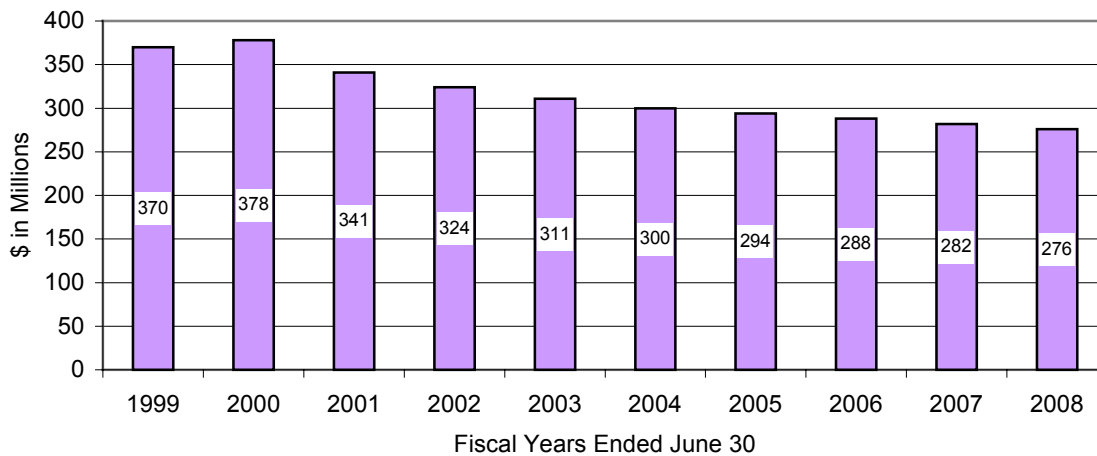


Expenditures:

Historical and projected General Fund expenditures are charted below. General Fund expenditures are expected to grow considerably over the next five years due to rising health care premiums, continued high pension obligations, and increased salaries and wages. Expenditure projection assumptions are detailed in the following pages.



ACTUAL AND PROJECTED MUNICIPAL INCOME TAX REVENUES



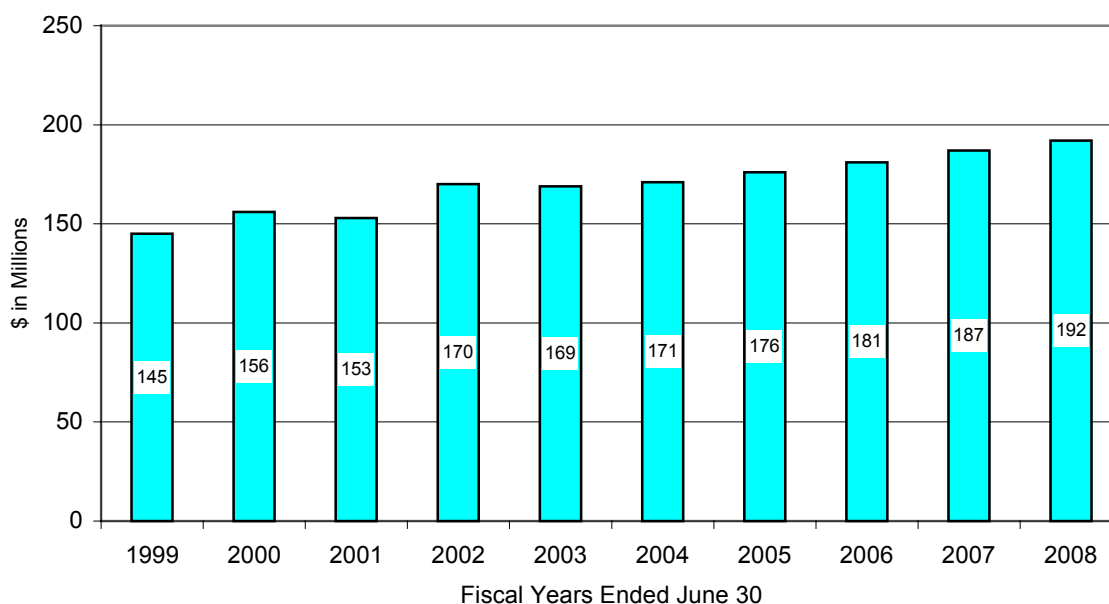
Year	\$ In Millions	
	Actual Revenue	Projected Revenue
1998-1999	370	
1999-2000	378	
2000-2001	341	
2001-2002	324	
2002-2003		311
2003-2004		300
2004-2005		294
2005-2006		288
2006-2007		282
2007-2008		276

Assumptions:

1. The annual decreases in the tax rates that commenced July 1, 1999 are expected to continue through the fiscal year ending June 30, 2008.
2. Estimated municipal income tax revenues for the fiscal years ending June 30, 2003 and June 30, 2004 are expected to reach the levels projected in the Mayor's 2003-2004 Proposed Budget.
3. Municipal income tax revenues are expected to decrease \$14 million for the four fiscal years ending June 30, 2005 through June 30, 2008, reflecting the effect of tax rate reductions.
4. Commencing with the fiscal year ending June 30, 2005, an additional \$6 million in tax revenues has been included to reflect the 4,100 new Compuware employees and \$2 million to reflect the new EDS employees.¹

¹ Comerica economists estimate that Compuware's 4,100 employees will generate between \$6 and \$8 million in additional City income tax revenues. Therefore, it is expected that EDS's 1,500 new Detroit employees will generate between \$2.2 and \$2.9 million in additional City income taxes.

ACTUAL AND PROJECTED PROPERTY TAX REVENUES



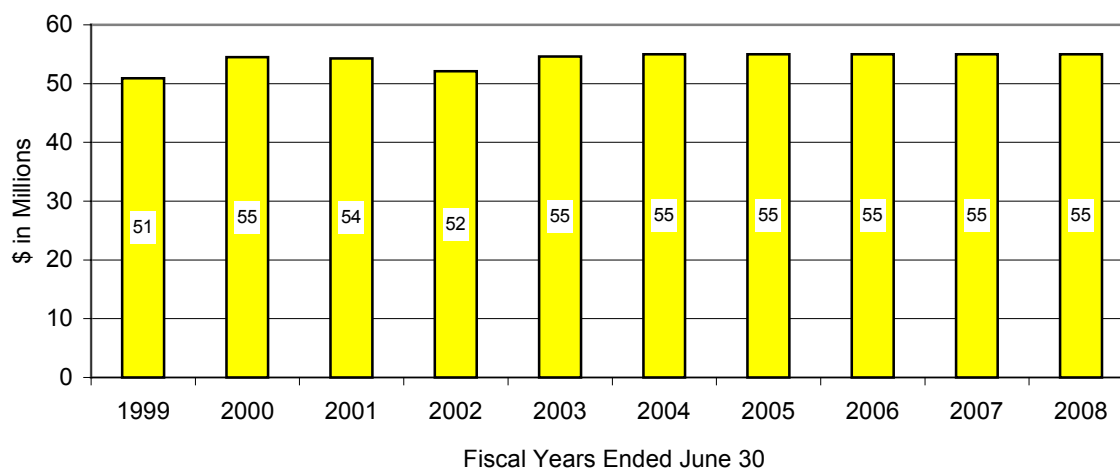
Year	\$ In Millions	
	Actual Revenue	Projected Revenue
1998-1999	145	
1999-2000	156	
2000-2001	153	
2001-2002	170	
2002-2003		169
2003-2004		171
2004-2005		176
2005-2006		181
2006-2007		187
2007-2008		192

Assumptions:

1. The General Fund portion of the property tax rate is expected to remain level at \$22.9563 per \$1,000 through the fiscal year ending June 30, 2008.
2. Tax revenues for the fiscal years ending June 30, 2003 and June 30, 2004 are expected to match the levels projected in the Mayor's 2003-2004 Proposed Budget.
3. Tax revenues are expected to increase at an average rate of 3 percent² per year commencing in the fiscal year ending June 30, 2005.
4. No major developments are expected to be added to the tax base.
5. Effects of special collection efforts during the projection period, such as tax amnesties or the use of external tax collectors, have been omitted from the projection.

² The average growth rate used by the City Finance Department in its February 2003 presentation to City Council on the financial state of the City of Detroit.

ACTUAL AND PROJECTED UTILITY USERS' TAX REVENUES

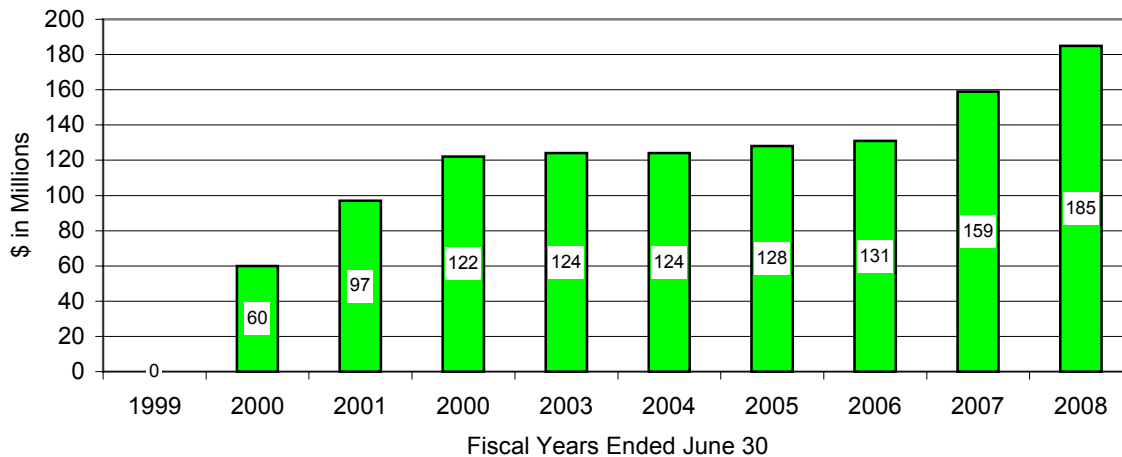


Year	\$ In Millions	
	Actual Revenue	Projected Revenue
1998-1999	51	
1999-2000	55	
2000-2001	54	
2001-2002	52	
2002-2003		55
2003-2004		55
2004-2005		55
2005-2006		55
2006-2007		55
2007-2008		55

Assumption:

- 1 Revenues from the utility users' tax are expected to remain flat through the fiscal year ending June 30, 2008.

ACTUAL AND PROJECTED WAGERING TAX AND FEE REVENUES



Year	\$ In Millions						
	Casino Wagering Tax		Municipal Service Fees		Additional Wagering Tax	Total	
	Actual	Projected	Actual	Projected	Projected	Actual	Projected
1998-1999	0		0			0	
1999-2000	53		7			60	
2000-2001	86		11			97	
2001-2002	109		13			122	
2002-2003		110		14			124
2003-2004		110		14			124
2004-2005		114		14			128
2005-2006		116		15			131
2006-2007		134		17	8		159
2007-2008		148		19	18		185

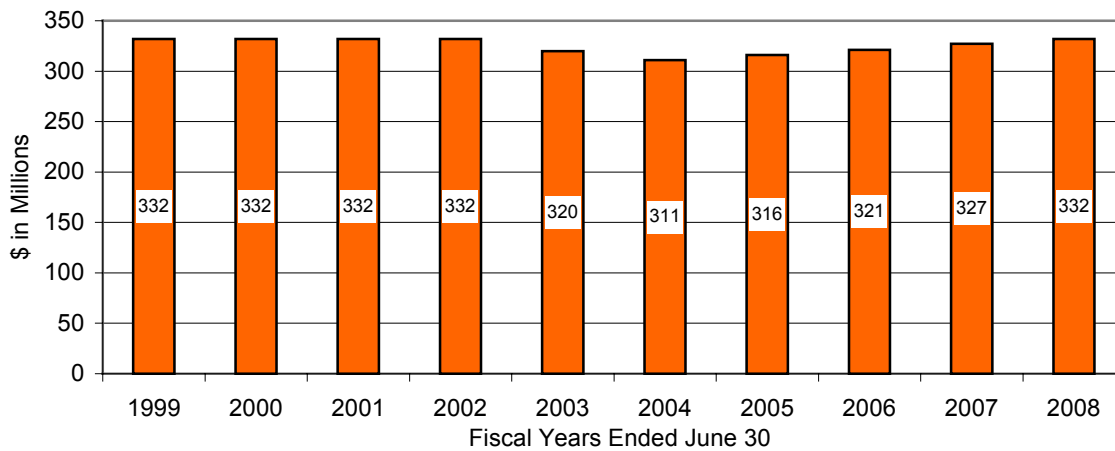
Assumptions:

1. Total adjusted casino revenues for the fiscal year ending June 30, 2003 and 2004 are expected to reach the levels projected in the Mayor's 2003-2004 Proposed Budget.
2. Total adjusted revenues for the fiscal year ending June 30, 2005 and 2006 are expected to increase 3.0 percent³ over the prior fiscal year.
3. In addition to the 3.0 percent annual increase, the projected opening of the permanent casinos on January 1, 2007 is projected to generate an additional \$30 million⁴ of wagering taxes annually.
4. The additional 1.0 percent tax on revenues under \$400 million per casino and the additional 2.0 percent tax on revenues over \$400 million per casino are expected to begin on January 1, 2007, when the permanent casinos open.
5. Service fees are computed on projected total adjusted revenues at 1.25 percent.

³ A more conservative growth rate is expected than that anticipated by the Finance Department in its February 2003 presentation to City Council. The Finance Department used a 4.0 percent growth rate to project casino revenues.

⁴ American Economics Group, Inc. (AEG), in their report "Detroit Casino Taxes and Fees: Projections in Context of Future Budgets," published June 29, 2000, projected that the permanent casinos would generate an additional \$60.7 million of wagering taxes annually. Due to the delay in the opening of the permanent casinos, as a conservative estimate, one-half this projection was incorporated, \$30 million annually, into the projection of casino revenues.

ACTUAL AND PROJECTED STATE REVENUE SHARING REVENUES

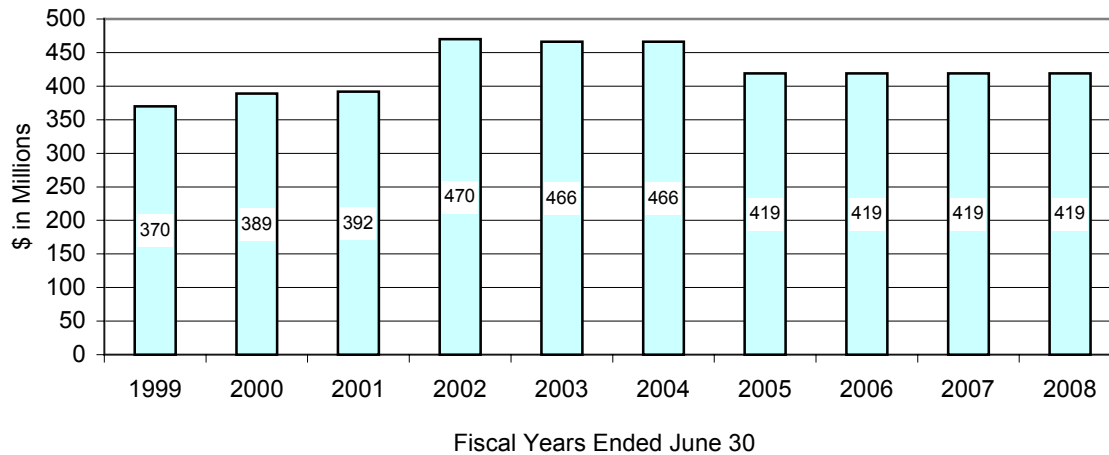


Year	\$ In Millions	
	Actual Revenue	Projected Revenue
1998-1999	332	
1999-2000	332	
2000-2001	332	
2001-2002	332	
2002-2003		320
2003-2004		311
2004-2005		316
2005-2006		321
2006-2007		327
2007-2008		332

Assumptions:

1. State revenue sharing for the fiscal year ending June 30, 2003 is expected to decrease \$11.6 million from 2001-2002 levels.
2. Based on the State's proposed budget for their next fiscal year (October 1, 2003 to September 30, 2004), Detroit's revenue sharing income is expected to be further reduced by \$9.6 million.
3. The cuts to State revenue sharing are projected to be gradually restored over the subsequent fiscal years with a return to the full amount in fiscal year 2007-2008.

ACTUAL AND PROJECTED OTHER GENERAL FUND REVENUES

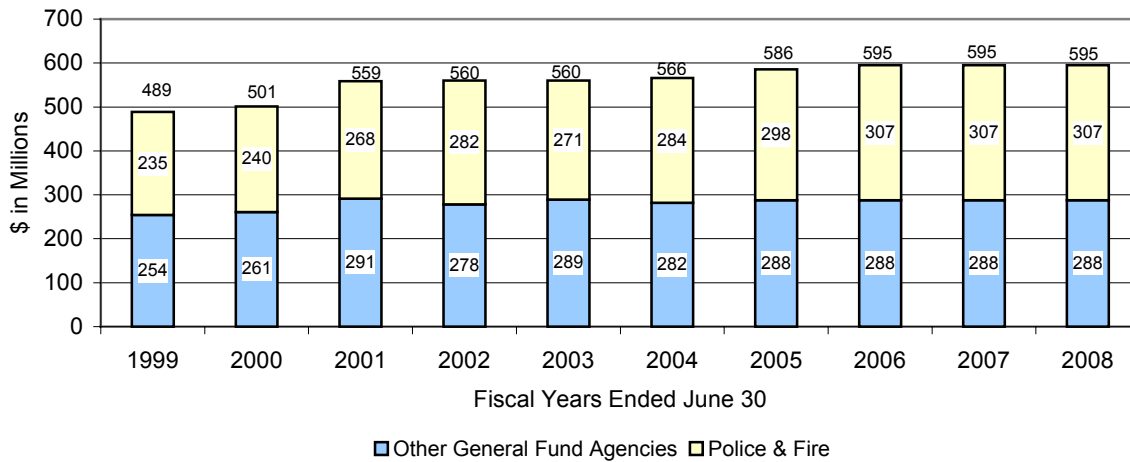


Year	\$ In Millions	
	Actual Revenue	Projected Revenue
1998-1999	370	
1999-2000	389	
2000-2001	392	
2001-2002	470	
2002-2003		466
2003-2004		466
2004-2005		419
2005-2006		419
2006-2007		419
2007-2008		419

Assumptions:

1. Other General Fund revenues were calculated by subtracting the forecasted major revenue classifications from Total General Fund revenues.
2. Amounts transferred in from other funds, of \$64 million, which are required to be reported under GASB 34, have been included in Other General Fund Revenues for the fiscal year ended June 30, 2002.
3. For fiscal years 2002-2003 and 2003-2004, Other Revenues were calculated by deducting budgeted amounts for the major revenue classifications from Total General Fund Revenues.
4. Other than the one-time \$47 million casino enhancement revenue projected to be received in 2003-2004, no change in the amount of Other Revenues is expected through fiscal year 2007-2008.

ACTUAL AND PROJECTED SALARY AND WAGE EXPENDITURES

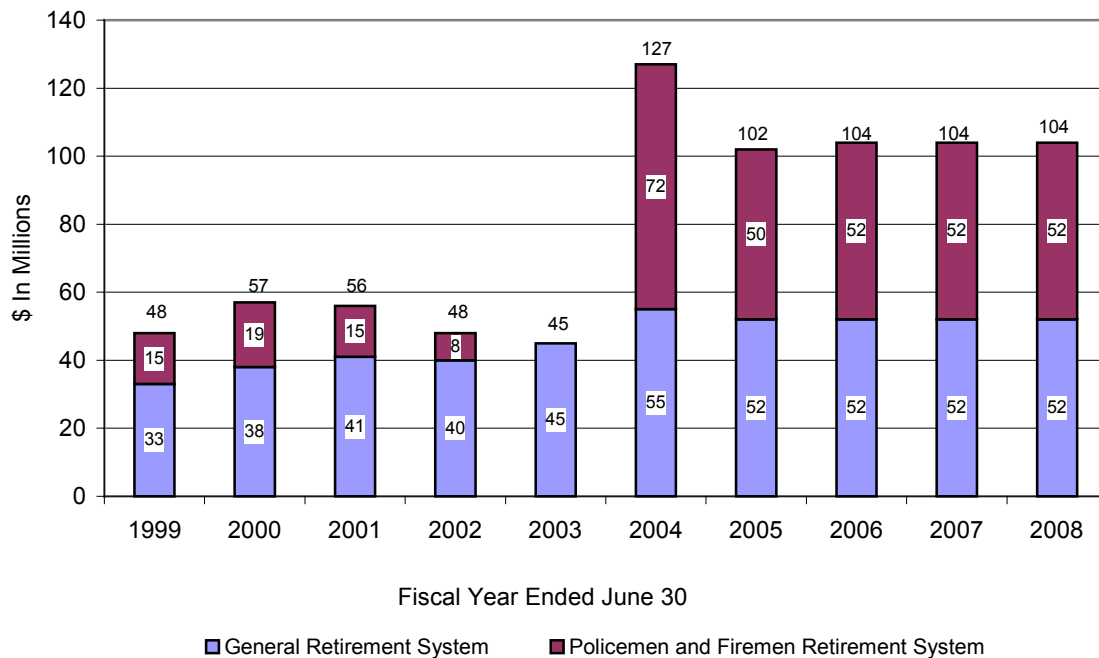


	\$ In Millions						
	Police		Fire		Other General Fund Employees		
Year	Actual	Projected	Actual	Projected	Actual	Projected	Total
1998-1999	172		63		254		489
1999-2000	175		65		261		501
2000-2001	198		70		291		559
2001-2002	211		71		278		560
2002-2003		196		75		289	560
2003-2004		206		78		282	566
2004-2005		217		81		288	586
2005-2006		223		84		288	595
2006-2007		223		84		288	595
2007-2008		223		84		288	595

Assumptions:

1. Actual General Fund salary and wages for 2002-2003 are expected to be equal to those appropriated in the 2002-2003 Adopted Budget.
2. Salary and wages for 2003-2004 are expected to be equal to the amounts included in the Mayor's 2003-2004 Proposed Budget.
3. Police and Fire salary and wages are expected to increase 5 percent in fiscal year 2004-2005, and 3 percent in fiscal year 2005-2006. Police and Fire salary and wages are expected to remain flat at the 2005-2006 levels for fiscal years 2006-2007 and 2007-2008.
4. Other General Fund Agencies' salary and wages for 2004-2005 are expected to increase 2 percent over the Mayor's 2003-2004 Proposed Budget salary and wages. Salary and wages for Other General Fund Agencies are expected to remain flat at the 2004-2005 levels for fiscal years 2005-2006 through 2007-2008.

ACTUAL AND PROJECTED PENSION EXPENDITURES

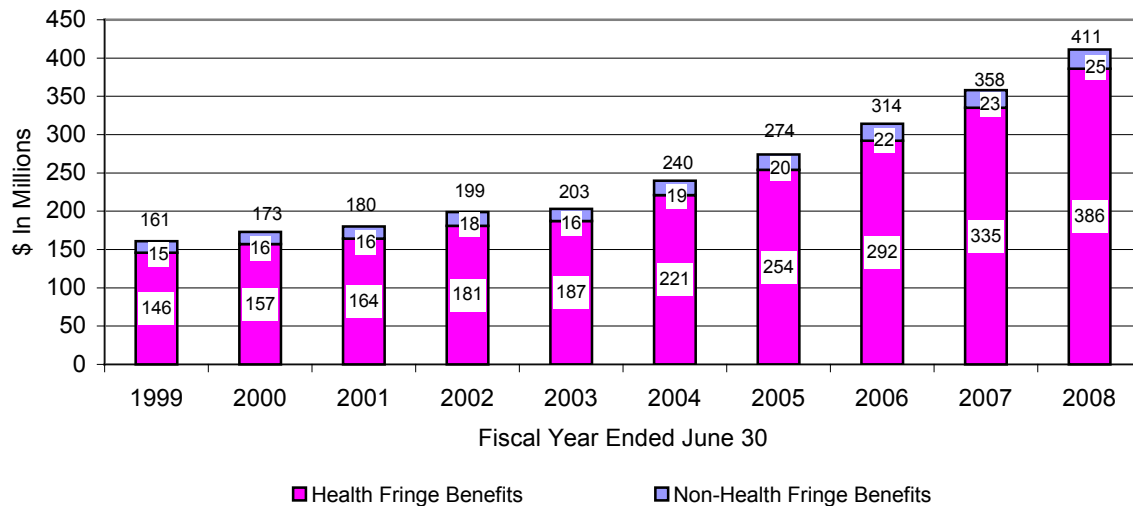


Year	\$ In Millions				
	Contribution To the GRS	Projected Contribution To the GRS	Contribution To the PFRS	Projected Contribution To the PFRS	Total Contribution to GRS and PFRS
1998-1999	33		15		48
1999-2000	38		19		57
2000-2001	41		15		56
2001-2002	40		8		48
2002-2003		45		> 0	45
2003-2004		55		72	127
2004-2005		52		50	102
2005-2006		52		52	104
2006-2007		52		52	104
2007-2008		52		52	104

Assumptions:

1. For fiscal year ending June 30, 2003, pension contributions are expected to be made at the actuarially calculated employer contribution rate of 15.92 percent for the General Retirement System (GRS).
2. For fiscal year ending June 30, 2003 the pension contribution to the Police and Firemen Retirement System (PFRS) is expected to be less than \$0.5 million.
3. For fiscal year ending June 30, 2004, pension contributions are expected to be made at the actuarially calculated employer contribution rate of 20.43 percent for the GRS and 27.68 percent for the PFRS.
4. For fiscal years ending June 30, 2005 through June 30, 2008, pension contributions are expected to be made at the average of the 2003 and 2004 actuarially computed contribution rates. The GRS rate is expected to be 18.18 percent, while the PFRS rate is expected to be 18.38 percent.

ACTUAL AND PROJECTED FRINGE BENEFIT EXPENDITURES
(EXCLUDING PENSIONS AND LEGALLY REQUIRED BENEFITS)

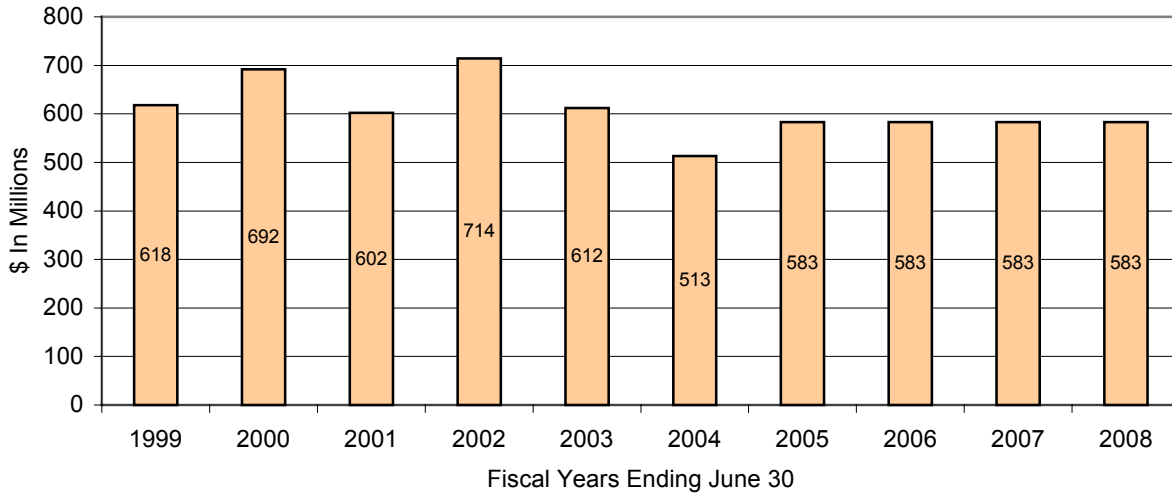


Year	\$ In Millions				Total Health & Non-Health Benefits
	Actual Health Benefits	Projected Health Benefits	Actual Non-Health Benefits	Projected Non-Health Benefits	
1998-1999	146		15		161
1999-2000	157		16		173
2000-2001	164		16		180
2001-2002	181		18		199
2002-2003		187		16	203
2003-2004		221		19	240
2004-2005		254		20	274
2005-2006		292		22	314
2006-2007		335		23	358
2007-2008		386		25	411

Assumptions:

1. The 2002-2003 health related benefit expenditures is expected to exceed the amount budgeted by 13.1 percent. Employee health related benefits have been under-budgeted an average of 13.1 percent for fiscal years 1999 through 2002.
2. Health benefit costs are expected to increase by 18 percent for fiscal year 2003-2004. This rate increase was announced in the Mayor's 2003-2004 Budget Address.
3. Health related benefits are expected to increase by 15 percent in fiscal years 2005 through 2008. This rate is the expected industry-wide rate increase.
4. Employee non-health related fringe benefits are expected to increase at a rate of 7.4 percent annually (the average growth rate between 1999 and 2002) through fiscal year 2008.
5. An expected change in retirement sick leave usage, that did not occur, caused fiscal 2002-2003 non-health benefits to be budgeted at a \$2.0 million lower level than the previous year.

ACTUAL AND PROJECTED OTHER GENERAL FUND EXPENDITURES



Year	\$ In Millions	
	Actual Expenditures	Projected Expenditures
1998-1999	618	
1999-2000	692	
2000-2001	602	
2001-2002	714	
2002-2003		612
2003-2004		513
2004-2005		583
2005-2006		583
2006-2007		583
2007-2008		583

Assumption

1. Other General Fund expenditures were calculated by subtracting the forecasted major expenditure classifications from Total General Fund expenditures. The General Fund transfer to the Detroit Department of Transportation (DDOT), considered an Other Financing Use, was also included in Other General Fund expenditures.
2. For fiscal years 2002-2003 and 2003-2004, other expenditures were calculated by deducting budgeted amounts for the major expenditure classifications from Total Expenditures. The Transfer to the Transportation Department was then added.
3. Other expenditures are expected to increase by \$70 million in 2004-2005 due to the inclusion of appropriations that were excluded from the Mayor's 2003-2004 Proposed Budget. These expenditures include: \$46 million annual risk management premium, \$10 million debt service on the new self-insurance bond issue, and \$14 million additional DDOT risk management premium (funded by an increase in General Fund Subsidy to DDOT).
4. No additional changes in the overall amount of Other Expenditures are expected through fiscal year 2007-2008.